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**FISCAL IMPACT STATEMENT**

**LS 7434**

**BILL NUMBER:** HB 1658

**NOTE PREPARED:** Jan 19, 2005

**BILL AMENDED:**

**SUBJECT:** New Workforce Scholars Program and Tax Credits.

**FIRST AUTHOR:** Rep. Borror

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill establishes the New Workforce Scholars Fund and Program. It provides a tax credit against state tax liability for: (1) employers that provide employment in targeted employment areas for students and graduates participating in a certified degree program; and (2) graduates of a certified degree program who are employed in Indiana after graduation. The bill also provides for certification of degree programs.

**Effective Date:** Upon passage; January 1, 2005 (retroactive); July 1, 2005.

**Explanation of State Expenditures:** *New Workforce Scholars Fund and Program:* The bill creates the New Workforce Scholars Fund to be administered by the State Budget Agency. However, the bill does not appropriate money to the Fund or provide a revenue source for the Fund. Subject to funding, the Fund is to be used to: (1) pay the total operating expenses of the Student Assistance Commission, including grants and administrative expenses, for the Certified Degree Program; and (2) reimburse the state General Fund for the cost of the Internship Payroll Credit (see Explanation of State Revenues).

The bill requires the State Budget Agency to annually transfer from the Fund an amount equal to the amount needed to reimburse the state General Fund for the cost of the Internship Payroll Credits taken by taxpayers in that fiscal year. Any money remaining in the Fund after reimbursement of the tax credit cost may be used by the Student Assistance Commission for grants to students to pay for academic credit to fulfill the internship component of a certified degree program. Money in the Fund at the end of the fiscal year does not revert to the state General Fund.

*Certified Degree Programs:* The bill provides for the establishment of certified degree programs by state and private institutions of higher learning. These programs would be certified by the Student Assistance Commission in consultation with the Department of Workforce Development and the Commission for Higher Education. Under the bill, a certified

degree program must address areas of targeted employment and include an internship component. The bill defines targeted employment as employment in any of the following business activities.

- (1) Advanced manufacturing, including the following:
  - (A) Automotive and electronics.
  - (B) Aerospace technology.
  - (C) Robotics.
  - (D) Engineering design technology.
- (2) Life sciences, including the following:
  - (A) Orthopedics or medical devices.
  - (B) Biomedical research or development.
  - (C) Pharmaceutical manufacturing.
  - (D) Agribusiness.
  - (E) Nanotechnology or molecular manufacturing.
- (3) Information technology, including the following:
  - (A) Informatics.
  - (B) Certified network administration.
  - (C) Software development.
  - (D) Fiber optics.
- (4) Twenty-first Century logistics, including the following:
  - (A) High-tech distribution.
  - (B) Efficient and effective flow and storage of goods, services, or information.
  - (C) Intermodal ports.

*Tax Credits:* The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** *Internship Payroll Credit:* The bill establishes the Internship Payroll Credit for payroll and other costs incurred by a taxpayer that employs in targeted employment a student in, or a graduate of, a certified degree program. (See discussion of these terms under Explanation of State Expenditures.) The credit is equal to the sum of: (1) \$500 for each targeted employment position filled by a student or graduate of a certified degree program; plus (2) the lesser of the payroll expenditures incurred by the taxpayer to employ the student or graduate in targeted employment or \$500. The amount of credits eligible taxpayers may claim annually is indeterminable. This total would be contingent upon a number of factors, including employer utilization, student interest, and current and future capacity of higher learning institutions to operate certified degree programs.

This credit may be claimed by individual and corporate taxpayers against their Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax liabilities. The credit is effective beginning in tax year 2005. As a result, the fiscal impact could begin in FY 2006 depending upon how quickly degree programs can be certified. The credit is not refundable, but may be carried forward to subsequent years. The credit can not be carried back. If an employer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. A taxpayer claiming the credit for an employee is not eligible to receive the Enterprise Zone Employment Credit or the Prison Investment Credit for the same employee.

*New Workforce Scholars Tax Credit:* The bill establishes a refundable tax credit that: (1) could be awarded on a

provisional basis by the Student Assistance Commission to an undergraduate student enrolled in a certified degree program; and (2) would be claimed in tax years subsequent to the student's graduation if the student is employed in Indiana. An eligible taxpayer could potentially be entitled to a maximum tax credit of \$2,000 per year over four consecutive tax years after graduation. The bill also limits the amount of credits granted for the 2005-2006 academic year so that the total amount claimed in 2007 does not exceed \$7.5 M. However due to start-up time needed to establish the program, it is expected that the fiscal impact of the credit would not begin until FY 2008. Despite the annual maximum for provisional credits (equal to \$28.0 M), the annual fiscal impact would be contingent upon the distribution of provisional credits by the Commission among students in two-year and four-year certified degree programs. Thus, the fiscal impact of the credit could exceed \$28.0 M in a particular fiscal year, however, those years would be offset by years in which credits claimed fell below \$28.0 M.

The bill permits the Student Assistance Commission to award a provisional tax credit during an academic year to a full-time undergraduate student who is enrolled in a certified degree program and who is an Indiana resident. To be eligible for a provisional tax credit, the student also must meet specified academic requirements and additional eligibility requirements imposed by the Commission. The maximum provisional credit is \$2,000 per academic year. The provisional credit may not be claimed against the student's Adjusted Gross Income (AGI) Tax. Rather, the provisional credit may be claimed once the student has graduated from the certified degree program and is employed in Indiana. Under the bill, the provisional credits would be claimed in the order of academic year in the certified degree program during which they were awarded. Thus, a provisional credit awarded in a student's first year in a certified degree program would be claimed in the first taxable year after graduation; and a provisional credit awarded in the fourth year in a certified degree program would be claimed in the fourth taxable year after graduation.

Under the bill, the tax credit is refundable. The bill limits the number of provisional credits a student may receive to four over four years in a certified degree program. The bill also limits the amount of a provisional credit to \$2,000 per student per academic year. The bill places an aggregate limit on the annual amount of provisional credits that the Commission may award to \$28.0 M per academic year. This could provide \$2,000 provisional credits to 14,000 students each academic year. Assuming 12 months start-up for the Certified Degree Program and for establishing eligibility requirements for the New Workforce Scholars Tax Credit Program, provisional credits could potentially be awarded for the first time during the 2006-2007 academic year. As a result, provisional credits could be claimed for the first time by graduates of a two-year certified degree program in tax year 2008. This would have a fiscal impact in FY 2009. Provisional credits awarded in the 2006-2007 academic year to a student in a four-year certified degree program could, at the earliest, be claimed in tax year 2011.

*Background:* Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

#### **Explanation of Local Expenditures:**

#### **Explanation of Local Revenues:**

**State Agencies Affected:** State Budget Agency; Department of State Revenue; State Student Assistance Commission; Commission for Higher Education; Department of Workforce Development.

#### **Local Agencies Affected:**

#### **Information Sources:**

**Fiscal Analyst:** Jim Landers, 317-232-9869.